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Czech Republic

Grain and Feed

Crop Update

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Approved by:

Sarah Hanson
U.S. Embassy

Prepared by:

Petra Choteborska

Report Highlights:

The Czech Republic has an oversupply of 1.8 million MT of grains from MY 2004/05, which is mostly in storage in warehouses. The Czech Republic's accession to the EU in May 2004 resulted in changes in its intervention policy that were coupled with an exceptional harvest of 8.8 MMT in MY 2004/05. This overproduction put heavy pressure on the State Agricultural Intervention Fund (SAIF), which is responsible for all intervention purchases. The EU opened tenders for exports from intervention individually to the new member states, and the Czech Republic is allowed to export 300,000 MT. So far, Brussels has accepted 80,000 MT (with other offer prices being too low). The situation is getting worse as grain quality deteriorates and transportation is limited. Only 150,000 MT can physically be exported from the Czech Republic (80% by trains and 20% by barges). The largest energy company CEZ is negotiating to burn lower quality wheat for energy.

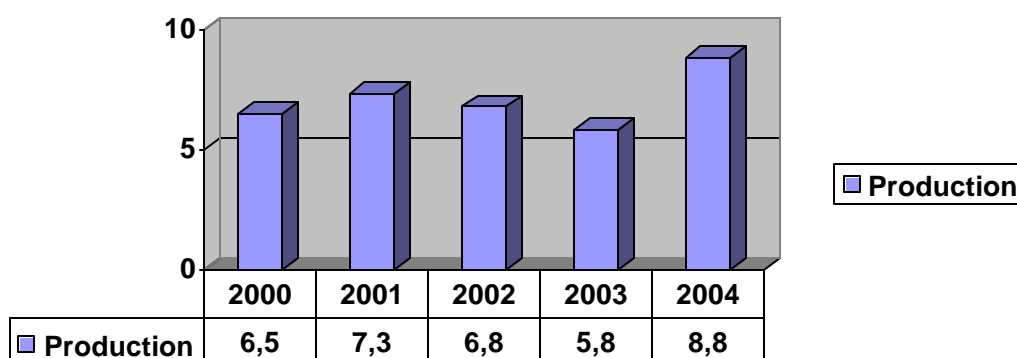
Includes PSD Changes: No
Includes Trade Matrix: No
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Production

Production in MY 2004/05 reached 8.8 million MT, an increase of 50% compared to the previous year. However, the MY 2003/04 harvest was the lowest in the last ten years due to flooding the summer of 2002. Therefore, last year's harvest was a return to average production.

Production was high mainly due to exceptionally good yields (grains: 5.46 MT/ha, wheat 5.84 MT/ha, rye 5.29 MT/ha, barley 4.97 MT/ha, oats 3.88 MT/ha, mixed grain – triticale – 4.86 MT/ha, and corn 6.13 MT/ha) as a result of favorable weather. Planting area was average.

Grain production in million MT



Trade

Between July 2004 and February 2005, the Czech Republic (CR) exported and imported the following commodities:

Wheat: The CR exported 216,000 MT (80% of that to Germany, Austria and Italy, the rest to Poland and Slovakia) and imported 25,000 MT from Poland and Slovakia.

Barley: 86,000 MT was exported to EU 15 (Germany 46,000, Italy 6,000, Austria 4,000), New Member States (Poland 10,000, Hungary 1,000 MT) and extra EU-25 (Russia 10,000, Kazakhstan 6,000 MT). Four thousand MT was imported from Slovakia.

Corn: The CR exported 14,000 MT, out of which 10,000 went to Germany and Austria, and the rest to Poland and Slovakia. Seven thousand MT of corn was imported, mainly from Poland.

Rye: 600 MT was exported to neighboring countries and almost 10,000 was imported from Germany and Poland.

Oats: 16,000 MT was exported, out of which half went to Germany, the rest to Greece, Poland, Slovenia and to Switzerland (2,500 MT).

Stocks and Intervention

Central European new members states are land-locked and are disadvantaged by high transportation costs to major ports. Therefore, the EU's offer of 4 Euro/MT as a

transportation-export subsidy was not competitive in the Czech Republic. After long negotiations, the EU opened tenders for grain exports from intervention to individual member states, the Czech Republic received 300,000 MT, which is based on an amount bought by intervention funds in each country. After three weeks, the EU accepted 80,000 MT of grain offered from the Czech Republic. If the export quota of 300,000 is filled, the Czech Republic can ask the EU to open another tender to the amount purchased by the State Agricultural Intervention Fund (SAIF).

According to the EU policy, the SAIF must purchase all offers for intervention (which are currently at 1.2 million MT and mainly for wheat). However, due to limited storage capacities, the SAIF actually purchased only 360,000 MT to date. The lack of sufficient storage capacity, which is a result of privatization (most elevators now belong to two major grain traders, Agropol and Agrofert, which are not interested in storing all the intervention stocks), has resulted in the SAIF to look for storage capacities abroad. So far the SAIF is capable of allocating over 420,000 MT in Germany and Belgium. However, transportation and (double) handling costs would increase prices significantly. The Agrarian Chamber is pushing the government to subsidize transportation costs to ports for exports to the free market.

Dragging intervention purchases and deteriorating grain quality make farmers and their associations admit they should have exported more grain to the free market right after the harvest. High transportation costs and the vision of 101.31 Euro/MT made them wait for intervention, which proved not to be the best option.

Future Grain Use

So far the weather has been very good for winter crops. If the weather remains favorable in the spring, the harvest in MY 2005/06 will also be very high and surpluses will continue.

Higher use of grains in feed mixtures will not offer a solution to the overproduction problem. Livestock numbers have decreased (due to lower meat consumption and higher milk efficiency) and will not increase. Moreover, the Czech government is not planning on building state-owned intervention warehouses, as they are too expensive. The government sometimes subsidizes the construction of private warehouses of large cooperatives or farmers (but not trading companies that own current facilities).

There are several scenarios for the future:

- Smaller grain area – The Association of Private Farmers, some farmers and independent experts see reduced grain plantings as the only solution to avoid last year's crisis. Currently there is no buy in for this idea since top-up from the national budget in 2005 will be paid on arable land (while SAPS from the EU will be paid on agricultural land). It is important that in the future top-ups are also paid on agricultural land or that there is another kind of support for farmers not growing grains, especially in the mountain areas where there are lower yields (i.e. LFA – less favorable areas). Arable land in the Czech Republic is around 70% of total agricultural land; in the EU it is on average 50%.
- Subsidy from the EU on transportation for export on the free market – this is an option, which SAIF would like to see next year, however, it's highly improbable that the EU will agree on this.
- Use for ethanol production – currently the Ministry of Environment is considering programs for building plants for ethanol production, which would be used in gas.

However, the government must first make refineries change their refining so that ethanol can be used in gas production (unlike methylester from rapeseed for diesel production, the technology for mixing ethanol from grains to be used in gas is more complicated).

- Source of energy for heating – there are companies in the Czech Republic with technologies for heating (e.g. of houses) based on burning of grain. At the moment it is too expensive, but it may be a solution for the future.

(Note: Information in this report is based on consultations with specialists at the Ministry of Agriculture, the State Agricultural Intervention Fund, agricultural associations, traders, researchers, and journalists.)